Testimony of Michigan Governor Jennifer Granholm
to the Committee on Energy and Commerce
House of Representatives

September 3, 2003

Mr. Chairman and members of the Committee, my name is Jennifer Granholm and I am the Governor of the State of Michigan. I appreciate the opportunity to appear before the Committee on Energy and Commerce today to discuss the blackout that ripped across the Eastern United States and Canada on August 14th, eventually hitting and stopping in my State.

As this Committee has recognized, all of us need to ensure that appropriate steps are taken to identify, address and correct the causes of the blackout.

In Michigan, over 6 million people lost power. The entire utility system of the Detroit Edison Company (DTE) was knocked out, leaving the City of Detroit, and much of the southeast region of Michigan without electricity and other essential services such as water and sewer. Detroit Edison's officials have stated that this is the first time in the company's history that the utility lost power to all its customers at one time.

I must express how enormously proud I am of Michigan's citizens, emergency responders, utility workers, and governmental employees who responded in extraordinary ways to lessen the severity of the crisis and restore the utility services as quickly and

efficiently as possible. Our emergency preparedness was tested and I am pleased to report that Michigan's citizenry and emergency management system came through with flying colors.

Despite the best efforts of the people of Michigan, the effects of the blackout on individual residents, small businesses, and major industrial electric users were very substantial. Although we are still in the process of assessing the damage, we have an initial estimate of direct cost of the emergency to state and local government of over $20 million dollars. In addition, we know that DTE suffered about $35 million in losses. Over 70 manufacturing companies in Michigan were forced to shut down. Anderson Economic Group in Lansing, MI has estimated that the total lost earnings in Michigan will reach the $1 billion mark once all of the numbers are totaled. Moreover, facilities such as hospitals and nursing homes were left scrambling to provide care to those who needed it. Streets were clogged with cars and gas stations were largely shut down, which made it more difficult for emergency responders to get to people in need.

We feel fortunate that despite the inconvenience, financial loss, and disruption of people's lives caused by the blackout, there was no loss of life. If we were to have a similar incident in the future, we might not be so lucky. In short, we cannot afford to have this kind of failure to our electric system happen again.

What were the specific factors and events leading up to, and contributing to, the blackouts of August 14?

Michigan's Public Service Commission has launched an investigation into the outage, as has the U.S. Department of Energy in conjunction with our Canadian counterparts. I would like to thank Secretary Spencer Abraham for appointing Mr. J. Peter Lark, the Chair of the Michigan Public Service Commission, to this body. I can assure this Committee and Secretary Abraham that Mr. Lark brings with him a wealth of expertise that will serve both Michigan and the country very well.

Until we receive the results of the investigations, I am reluctant to make pronouncements of what may have been the precise cause of the outage. While we believe we know the sequence of events that resulted in the power outage - power plants tripping off-line and transmission lines going down in a fashion we are not used to seeing - we do not know why those events occurred, and I believe we need to wait for the investigations to be completed before we jump to conclusions.

Based on information provided by our utilities, transmission companies, and by our preliminary examination of the situation, we do know that there is a strong likelihood that the outage can be traced to at least three potential factors. One potential factor is

human error. The transmission system that serves Detroit Edison's utility system, International Transmission Company (ITC), as well as Detroit Edison officials, have reported that they received no communications prior to the blackout from the northern Ohio utility that has been identified as the likely system where the troubles originated. ITC has traced the timeline on actions that contributed to the blackout back to 1 hour and 5 minutes before it occurred. While ITC was able to develop and provide this information to us after the blackout occurred, ITC and DTE tell us they were unaware of any problem or any unusual activity on the grid until 2 minutes before the blackout, when the power flowing from Michigan to Ohio jumped by 2000 megawatts in 10 seconds. By this time, ITC told us that the situation was at the "point of no return." If they had been informed during the previous hour that the system was having problems, they may have been able to craft a contingency plan for the energy demand and delivery, and avoid the cascading failure.

The second potential cause for the blackout cited in various accounts is powerline failure, possibly due to inadequate maintenance. Again, the extensive investigations currently underway will probably give us a precise factor or set of factors and events that caused the blackout. I also anticipate that the testimony provided by public service

commission chairs and by the transmission companies today will give you greater insight into the precise series of events and technical failures that occurred.

A third potential cause that needs to be explored is whether an evolving utility market might have impacted the power outage. In 2000, Michigan passed PA 141, a law whose main goal was to provide cheap, reliable power for Michigan's industrial, commercial and residential customers. It was touted as a law that would provide "[c]hoice for those who want it, and protection for those who don't." Whether you believe this act was a positive or negative step for electricity in Michigan it does not change the fact that this law completely altered the way electricity was transmitted, distributed and sold in Michigan. This legislation changed Michigan from a state with a fully regulated utility system, to one with a restructured market. Michigan did not fully deregulate like some other states, but Michigan did make significant changes in ownership of the utility system and how power was transmitted.

There were some positive results that came out of PA 141. More power plants were built in Michigan which has helped us meet peak demand in the summer months, and 2000 MW of new transmission lines were constructed to transfer power in and out of the lower part of the state. Both of these changes should have helped enhance the reliability of the power supply.

However, PA 141 also resulted in power companies selling off their transmission systems to separate operators. Before restructuring, Michigan's two big utilities, DTE and Consumers Energy, shared a power pool and were able to monitor and control production and movement of power between each other and their customers in a centralized fashion. Under PA 141, movement of power on the grid is now controlled less directly by the power companies in Michigan and is much more widely influenced by power supply and demand in the region.

In addition, under the guidance of the Federal Energy Regulatory Commission (FERC), Michigan utilities chose to join a Regional Transmission Organization (RTO). The RTO that Michigan utilities and transmission companies generally joined was the Midwest Independent System Operator (MISO). MISO is supposed to help control the movement of power across the grid, and ensure that situations like the one that happened on August 14 do not occur. But, participation in an RTO is **not** mandated by the federal government, and there are no mandatory reliability requirements that RTOs must follow. In the case of MISO, some of Michigan's most critical partners – utility and transmission companies in Northern Ohio and Illinois - did not join. The bottom line is that this contributes to a system where no one, myself included, knows who is ultimately responsible for ensuring reliability. That is an unacceptable situation.

The average citizen will not care who is responsible or how exactly they are held responsible. They simply want to know that when they get on an elevator, they are going to be able to get off; when they flip a light switch that light will come on; or when they turn on the tap safe drinking water will flow.

Which systems operated as designed and which systems failed?

Again, I am reluctant at this time to suggest what worked, what didn't work, and why, until we receive the results of the investigations. While we do know the westward flow of the cascading blackout stopped in Michigan, we do not yet know why. I hope that investigations by the Michigan Public Service Commission and the United States Department of Energy shed light on what worked, what didn't, and why, so that we develop a system capable of stopping any future cascading blackouts.

What lessons were learned from the blackouts?

Two points stand out. First, our increased planning, training, and coordination since the events of September 11, 2001 paid off tremendously, even in a non-terrorism related contingency. We must continue to be prepared, to be vigilant, and to give our first responders every resource they need to protect our citizens in the event of another

unseen emergency. The real success of this blackout is that Michigan had no deaths, severe injuries, or spikes in crime during the time when the power was out. This is a testament to our first responders who sprung into action, and to the sprit of the Michigan citizenry. It was the power of the people of Michigan held us together during our darkest hours.

Our communities united instead of dividing. As soon as we knew that drinking water was needed in southeast Michigan, businesses around the state offered up their stocks of water bottles. In two days, through the generosity of Michigan businesses, over 1 million bottles of water were delivered to the victims of the blackout in southeast Michigan.

During the early hours of the blackout, while the emergency management team and I were working hard to learn what had happened and what we needed to do, right outside my window civilians had taken to the street to help direct traffic and ensure people got home safely.

Second, the necessity of maintaining a safe, reliable and efficient electric transmission system should be critically apparent to all as a result of this blackout. It is vital that we take all steps necessary to avoid a repeat of the August 14 disruption. The

State of Michigan stands ready to help, but the physical and legal nature of the Nation's transmission system requires a strong, coordinated federal solution.

How can similar incidents in the future be prevented?

Congress must respond swiftly to institute measures to stabilize and protect our electrical transmission systems. By this I mean there must be in place a system of mandatory standards and rules for the reliable operation of the electricity grid. **Congress should immediately pass a stand-alone bill that will provide enforceable reliability standards for the nation's transmission system.** This could mean giving more regulatory teeth to the North American Electric Reliability Council (NERC) or to the Federal Energy Regulatory Commission (FERC). It could also mean putting a higher priority on making RTO's work effectively.

The security and reliability of the interstate electric transmission system is unmistakably under the purview of the federal government. Yet, FERC's Chairman has stated that "right now, there is no federal regulatory authority over reliability." I urge you to fix this deficiency by passing legislation that requires enforceable standards for the safe and reliable operation of the nation's power grid.

While I believe that mandatory reliability standards should be immediately enacted in stand alone legislation, there are clearly other important goals that should be included in any overarching energy legislation considered by Congress:

1. **Require Accountability** - The electrical system in this country must include a system of accountability. We need to know who is responsible for what, and there must be ways to enforce accountability in the system.
2. **Ensure Price Predictability and Stability** - The system must provide a level of stability and predictability of energy prices. Clearly, steps need to be taken to strengthen consumer protections in electricity pricing. Currently, federal rules do not prevent unfair price gouging in wholesale electric sales, and they do nothing to protect families and businesses in Michigan or any other state and the retail prices they pay. No family -- not just those living on fixed or low incomes, although they are particularly vulnerable -- can budget for wildly changing or perhaps even doubling or tripling of their home energy bills. And as vulnerable as each family's budget can be, small businesses can be put out of business by dramatic increases in their electric bills. Energy costs are a large expense of doing business for the local grocery store, restaurant, or dry cleaner. How do they survive without stable and fair prices for their electricity? Even our largest

manufacturers could lose business -- could lose jobs --if energy costs climb and they lose they are unable to compete and win against foreign competitors.

3. **Encourage Investment in the Power Grid** - Finally, comprehensive energy legislation must do more to ensure the national power grid is capable of handling the energy needs of our country. Whether that is additional power lines, or the development of new technologies that allow for more efficient distribution of power, it is clear that we need a transmission system that provides an appropriate level of investment in improvement and maintenance. A poorly maintained power grid is not only an inconvenience to every family in the country - it is a threat to our jobs. Losing power shuts down commerce. Some of our largest manufacturing plants were shut down for days as a result of this outage. It threatens our health and safety when we can't provide electricity to guide traffic, illuminate roads and sidewalks, or power our water supply systems. And it has a continuing impact. An unreliable electric supply is a direct impediment to attracting investment, and something that we all will suffer the consequences of in the future.

As Governor, I do not set the rules for supplying electric power, but I am the one who has to protect the peace when the power goes off. A massive blackout has an even

larger impact on public safety, from law enforcement to medical services, from ground transportation to even shutting down our airports. People will tell you that fixing this problem in our transmission system is going to be expensive, but the bottom line is we cannot afford to ignore this problem.

In conclusion, whether we learn that the causes were systemic or human error, mechanical or electronic, an obvious starting point to address the problem will be the passage of legislation to enact mandatory and enforceable standards and rules for the safe and reliable operation of the nation's transmission grid. I urge Congress to act quickly to address these issues and meet the need that was so clearly demonstrated on August 14, 2003.

Thank you for this opportunity to share these comments with you.